A survey on microfinance services contribution to entrepreneurial development in Kenya: a case study for Nairobi

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Abstract: The banking sector in Kenya is fairly vibrant by the standards of developing third world countries. However the sector is 90% emphatically dominated by the formal commercial banks. These banks owing to their restrictive credit policy have largely catered for the big business only. This has meant that the small micro and medium enterprises have not been able to access credit as they cannot meet the bank's stringent credit conditions. To address the large gap in finance requirements for the small, and medium enterprises (SME), in roads have been made by assisting the micro finance institutions (MFI) to move in and cater for the SMEs financial services requirements. SMEs, also referring to micro and small enterprises (MSEs) cut across all sectors of the economy have provided employment opportunities, reduce poverty and are bleeding ground for medium and large industries which have been to Kenya's economic development and ultimate industrialization by 2020. The SME sector faces challenges and constraints involving unfavourable policy environment, inhibitive legal and regulatory framework, limited access to financial services, markets, skills and technology, poor access to infrastructure, linkages with large enterprises, limited access to information and unfavourable taxation regime. In Kenya the MFI driven by government, private sector and Non-Governmental Organization (NGOs) have embarked on SME support by addressing the major constraints inhibiting the growth of the MSEs, as: i. Lack of collateral and inappropriate legal and regulatory framework that does not recognize innovative lending policy to MSEs coupled with limited access to credit and financial services. ii. There is no structural institutional mechanism to facilitate flow of financial resources from banks to MFI, and then to the SMEs hence increasing cost of credit. iii. Banking institutions are tailored to offer credit services to formally registered big business that meet criteria for lending e.g. bookkeeping, collateral growth potential, etc. SME are perceived as high risk commercially therefore. MFI pursue programmes tailored to assist the informal SMEs in comprehensive packages involving solutions to SMEs challenges and constraints. These micro enterprise programme are driven by International NGOs, National NGOs, Government Agencies, Financial Institutions, Business Associations, SACCOS and Multilateral Organizations, all operating as MFIs.